IFRS Accounting

Staff paper

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IASB® meeting

Date	**March 2025**
Project	**Statement of Cash Flows and Related Matters**
Topic	**Initial research findings and next steps**
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Objective

1. In September 2024, the IASB started its research project Statement of Cash Flows and Related Matters and discussed a preliminary research plan. Agenda Paper 20B of September 2024 outlines the preliminary research plan and explains that its purpose is to gather evidence of the nature and extent of perceived deficiencies in the requirements of IAS 7 and the likely benefits of developing new financial reporting requirements. The research findings are intended to provide evidence for the IASB to decide the scope of the project.

2. The objective of this agenda paper is to summarise the findings of the preliminary research detailed in agenda papers 20A–20C and to report our initial conclusions and recommended next steps in the project.

Summary of staff recommendations

3. We recommend that the IASB explore the feasibility and potential benefits of resolving perceived deficiencies in the requirements of IAS 7 related to the topics included in the initial research, specifically:

    (a) requirements for classifying cash flows;

(b) aggregation and disaggregation of cash flow information;

(c) definitions of cash and cash equivalents;

(d) effects of non-cash transactions;

(e) method of reporting operating cash flows;

(f) information about commonly used cash flow measures; and

(g) statement of cash flows for financial institutions.

Structure of this paper

4. This paper is structured as follows:

   (a) objective and scope of initial research (paragraphs 5–7);

   (b) findings from initial research:

      (i) requirements for classifying cash flows (paragraphs 8–18);

      (ii) aggregation and disaggregation of cash flow information (paragraphs 19–26);

      (iii) definitions of cash and cash equivalents (paragraphs 27–33);

      (iv) effects of non-cash transactions (paragraphs 34–38);

      (v) method of reporting operating cash flows (paragraphs 39–45);

      (vi) information about commonly used cash flow measures (paragraphs 46–51);

      (vii) statement of cash flows for financial institutions (paragraphs 52–54); and

      (viii) other comments (paragraphs 55–60); and

   (c) next steps and initial analysis of findings:

      (i) next steps (paragraphs 62–63); and

(ii) initial analysis of findings (paragraphs 64–97).

Objective and scope of initial research

5. Our objective with the initial research was to better understand the nature and extent of the perceived deficiencies in the requirements of IAS 7 related to each of the seven research topics identified at the start of the project (see paragraph 3). Our research provided a deeper understanding of the detailed matters within each topic and connections between them which will form the basis for the project plan. The next section summarises the detailed subtopics we identified. The following section outlines next steps for developing the project plan.

6. Agenda Paper 20B of the IASB's September 2024 meeting outlines the activities performed in the initial research phase of the project which included:

   (a) conducting consultative group and individual stakeholder meetings;

   (b) reviewing results of National Standard Setter projects;

   (c) analysing financial statements; and

   (d) reviewing related IASB projects.

7. Based on feedback received in the Third Agenda Consultation, a preliminary review of academic literature and discussion at the June 2024 joint CMAC-GPF meeting the initial research focussed on exploring perceived deficiencies in the requirements of IAS 7 related to seven topics (see paragraph 3).

Findings from initial research

Requirements for classifying cash flows

8. We identified two subtopics related to the requirements for classifying cash flows in the statement of cash flows that the IASB might further assess for feasibility and benefits of resolving related matters:

   (a) definitions of categories and subtotals (including alignment with classification requirements in IFRS 18); and

   (b) consistent application of classification requirements.

Definitions of categories and subtotals

9. Most users of financial statements (investors) and preparers that we spoke with classified cash flow information for their analyses differently from the classifications used in the statement of cash flows. Many adjusted cash flows from operating activities to arrive at a Free Cash Flow (FCF) type measure, the calculation of which varied by individual.

10. Despite many investors adjusting cash flow items for analysis purposes, many did not specifically say the categories of operating, investing and financing were fundamentally wrong. Many said specifically the subtotal of cash flow from operating activities was a useful measure for their analyses. Some investors also said the structure in IAS 7 is a useful starting point for their analyses. Similarly, some preparers said they might classify cash flows differently for internal management and analysis purposes but also did not raise issues with the categories in IAS 7.

11. Many, particularly National Standard Setters (NSS), said that greater alignment between the categories in the statement of cash flows and the statement of profit or loss might be useful and avoid confusion. IFRS 18 *Presentation and Disclosure in Financial Statements* introduced categories for the statement of profit or loss with the same labels as the categories in the statement of cash flows but with definitions that

are not fully aligned. The categories reflect how investors said they use the statement of profit or loss. In our initial research some investors said that greater alignment between the category definitions, to the extent possible, was helpful. But most investors said they understood the differences between the categories in the two statements and some preferred maintaining the differences because of their varied uses of these two primary financial statements.

12. We think the IASB should explore the feasibility and possible benefits of changes to the categories and subtotals in the statement of cash flows. Feedback suggests that the definition of operating activities might lead to diversity in classification and that some stakeholders prefer more alignment with the classification in the statement of profit or loss.

Consistent application of classification requirements

13. Many preparers, firms, regulators and NSS identified areas of diversity in the classification of cash flows from specific transactions. Most firms and regulators also noted that classification errors often arise in the statement of cash flows, many of which appear basic in nature. However, investors did not identify similar concerns.

14. Some of the stakeholders that identified areas of diversity suggested that the diversity arises from a lack of specific guidance for some transactions. Others suggested diversity in the presentation of some items might arise from judgements in applying the definition of cash flows from operating activities because it includes both a positive definition, 'the principal revenue-producing activities of the entity', and a default element, 'other activities that are not investing or financing activities'.

15. Some stakeholders also identified causes of classification errors as perceived differences in the classification of related income and expenses applying other IFRS Accounting Standards or a differing 'economic view' of the cash flows. These stakeholders suggested that more application guidance on the definitions of the

categories for the statement of cash flows might help to achieve more consistent classification.

16. Our research of financial statements did not identify significant diversity in the classification of specific cash flows (see Agenda Paper 20C of this meeting). However, given our limited sample size and the impact of aggregation and disaggregation we were unable to conclude whether this is indicative of the wider population. Hence, we were unable to find information about the specific items stakeholders said were often diversly classified, such as government grants. Being unable to see specific items often identified as being diversly classified, for example because of aggregation, might be a reason why investors did not identify diversity in classification as an issue.

17. We think the IASB should explore the feasibility and possible benefits of resolving perceived deficiencies in the consistent application of the category definitions in the statement of cash flows because of the amount of feedback we received about diversity in the classification of specific cash flow items.

Connections to other IFRS Accounting Standards or IASB projects

18. A Post Implementation Review (PIR) of IFRS 16 *Leases* is currently in progress. We are aware of preliminary feedback regarding the classification of cash flows for leases. We will monitor the progress of this project and consider further feedback related to cash flow classification when assessing this topic.

Aggregation and disaggregation of cash flow information

19. Investors told us the specific disaggregated information they seek in the financial statements is not always disclosed. Many investors said more disaggregated information would be useful and had various suggestions for specific disaggregated information that would be useful.

20. Investors' detailed suggestions for disaggregated information each have their own potential benefits and challenges. For example, many investors said disaggregating capital expenditures between those related to growth and those related to maintenance would provide useful information. However, most investors also said that identifying each type of cash flow was highly judgemental and industry-specific. Preparers shared similar concerns. Whether preparers identified this information internally and the amount of judgement that they said was involved depended on individual circumstances including their industry. Because of the judgement involved some investors did not think the IASB should require such disclosure. However, other investors thought understanding management's judgements would still be useful and that the IASB should require such disclosure.

21. In our financial statement analysis, we found that often many of the specific items sought by investors are not presented or disclosed in the financial statements. However, we found that most entities disaggregated working capital items at the same level of detail as the current assets and current liabilities presented in the statement of financial position.

22. IFRS 18 introduced application guidance on aggregation and disaggregation and the concept of a useful structured summary, both of which are expected to affect disaggregation in the statement of cash flows. Some stakeholders said that this guidance is expected to result in improved disaggregation in the statement of cash flows and related notes. However, it is uncertain the extent to which the guidance will lead to more disaggregation of the specific items raised by investors. Application guidance specific to the statement of cash flows might be useful. For example, including specific characteristics relevant to disaggregating cash flows.

23. We think the IASB should explore the feasibility and possible benefits of developing specific application guidance on aggregation and disaggregation of cash flow information because it was a topic most investors perceived as not receiving sufficient information for their analyses.

Connections to other IFRS Accounting Standards or IASB projects

24. Many investors said they seek disaggregated information to help them understand the effects of business combinations on an entity's cash flows. The IASB has an active standard-setting project Business Combinations—Disclosures, Goodwill and Impairment. Although this project does not propose changes to the disclosure of cash flows it is considering changes to disclosure requirements of IFRS 3 *Business Combinations.* We will monitor the progress of this project and consider if any developments potentially interact with any exploration of approaches to the disaggregation of cash flows related to business combinations.

25. One of the specific items of information investors said they seek disaggregation about is capital expenditure separated between growth and maintenance. The IASB has an active research project Intangible Assets in which similar feedback has been received from investors regarding disaggregating expenses into growth-oriented and maintenance portions of expenditures on internally generated intangibles. We will monitor the progress of this project and consider if any developments potentially interact with any exploration of approaches to the disaggregation of capital expenditures.

26. Some of the specific items that investors said they seek information about are the subject of disclosure requirements in other IFRS Accounting Standards. For example, IFRS 12 *Disclosure of Interests in Other Entities* includes disclosure requirements for dividends paid to non-controlling interests that are material to the reporting entity. We think we will need to consider how any approaches to resolving perceived deficiencies in the requirements of IAS 7 interact with such disclosure requirements.

The definitions of cash and cash equivalents

27. We identify two subtopics related to the definitions of cash and cash equivalents:

    (a) definitions of cash and cash equivalents (including additional disclosures on restricted cash); and

(b) consistent application.

Definitions of cash and cash equivalents

28. Some preparers said they manage liquidity using investments that do not meet the definition of cash and cash equivalents, such as investments readily convertible to cash with maturities of longer than 90 days. Some also said that such instruments are used in the same way as cash for settling transactions. For example, they are frequently used for the purchase or sale of goods or services. These stakeholders suggested that having a definition of cash equivalents in IAS 7 that included more of these types of investments would better reflect liquidity management and reduce costs by better aligning internal and external reporting. Some stakeholders also suggested that there was a lack of requirements in IAS 7 for assessing whether some transactions give rise to cash flows.

29. Only a few investors commented on the definition of cash and cash equivalents. Most of these investors said consistent application was more important than the specific definition. Most also preferred a definition including only investments with shorter maturities.

30. A few stakeholders suggested the definition of cash and cash equivalents should be considered wholistically in the context of the purpose of the statement of cash flows and raised a question whether the statement should be a reconciliation of cash and cash equivalents or something else, such as net debt. A few others suggested requiring disclosures to help investors better understand cash restrictions.

Consistent application

31. Many preparers, firms, regulators and NSS said the definition of cash equivalents is challenging to apply and leads to diversity in its application. Many said it was unclear whether the reference to a maturity of three months or less is an example of meeting the requirement for a cash equivalent to be short term, or whether it is a rule

prohibiting investments with longer maturities from being cash equivalents. Some said IAS 7 does not include guidance on how to weigh the different aspects of the definition. For example, some stakeholders asked whether any one of the criteria of maturity, high liquidity, or insignificant risk of changes in value is more important than any another in meeting the definition.

32. Our initial analysis of financial statements identified that there was diversity in the classification of instruments such as money market funds, commercial paper, or bank overdrafts. However, it was unclear whether this diversity resulted from the instruments having different terms or whether it arose from different applications of the definition.

33. We think the IASB should explore the feasibility and possible benefits of resolving perceived deficiencies with the definitions of cash and cash equivalents because of the amount of feedback received from preparers and other stakeholders regarding diversity in the application of the current definition and its difference from cash management practices.

Effects of non-cash transactions

34. We identify two subtopics related to the effects of non-cash transactions:

    (a) information about non-cash changes in assets and liabilities; and

    (b) improved accessibility of information disclosed about non-cash transactions.

Information about non-cash changes in assets and liabilities

35. Many investors said information about non-cash changes in assets and liabilities was important for understanding operating cash flows and movements in working capital. Investors identified various uses of the information about non-cash changes. We understand many investors forecast future cash flows by forecasting expected changes in assets and liabilities and deducing the required cash flows. Some investors seek information to be able to compare the cash flows of entities with 'economically

similar' transactions. For example, to be able to compare an entity that purchases an asset by increasing its borrowing when an intermediary executes the transaction to another entity that completes the same transaction by receiving cash from a financial institution and paying cash to the vendor directly. Some investors seek to better understand why assets and liabilities changed in the year, for example, understanding the effects of business combinations or foreign exchange differences on the increase or decrease in the balance.

Improved accessibility of information disclosed about non-cash transactions

36. Some investors highlighted that IFRS Accounting Standards require disclosure of information about some non-cash transactions. For example, disclosures about share-based payment transactions or business combinations. However, investors said this information can be difficult to find because it is included in notes with no cross-reference in the statement of cash flows to these disclosures.

37. We think the IASB should explore the feasibility and possible benefits of resolving perceived deficiencies in the presentation or disclosure of information about non-cash changes in assets and liabilities, including improved accessibility of information disclosed about non-cash transactions because investors said they often struggle to find the information they need.

Connections to other IFRS Accounting Standards and IASB projects

38. The IASB recently amended IAS 7 to require disclosure of information about supplier finance arrangements and changes in liabilities arising from financing activities. We will use what the IASB learned about non-cash changes in assets and liabilities and information about non-cash transactions in this project.

Method of reporting operating cash flows

39. We identify two subtopics related to the method of reporting cash flows from operating activities:

    (a) specific direct method information; and

    (b) guidance on deciding the presentation method.

Specific direct method information

40. Some investors said information about operating cash flows using the direct method is useful, particularly for some items because it provides more accurate and transparent information about earnings quality that they must otherwise deduce using other methods.

41. However, many investors and preparers said they preferred to continue to use or present information using the method currently used or provided. In our initial research most stakeholders used the indirect method. Some investors that use the indirect method said additional disclosure of some information using the direct method would be useful.

42. Most preparers using the indirect method raised concerns about the cost of change if the direct method presentation were required.

43. We think the IASB should explore the feasibility and possible benefits of resolving perceived deficiencies with the method of reporting cash flows from operating activities. Although there were mixed views about whether the benefits of the direct method exceed the costs, many stakeholders said that some information using the direct method might be useful to investors.

Guidance on deciding the presentation method

44. IFRS 18 defined the roles of the primary financial statements and introduced the principle of a useful structured summary. IFRS 18 also includes application guidance

to help entities apply this principle when determining whether to present their operating expenses by nature or by function in the statement of profit or loss.

45. We think the IASB should consider the feasibility and benefits of developing similar application guidance in this project on when the direct or indirect method provides the most useful information. IAS 7 provides a choice of presenting operating activities using the direct or the indirect method. Guidance might help entities to apply the principle of a useful structured summary to this choice, similar to the guidance in IFRS 18 for the presentation of operating expenses.

Information about commonly used cash flow measures

46. We identify two subtopics related to the non-cash effects of some transactions:

    (a) requirements similar to management-defined performance measures (MPMs) for cash flow measures; and

    (b) possible additional subtotals in the statement of cash flows.

Requirements similar to management-defined performance measures (MPMs) for cash flow measures

47. Most investors said they construct a FCF type measure for various analyses. Many preparers also prepare a FCF type measure, either to help investors in their calculation of the measure or because they use it internally to manage the business. Our financial statement analysis supported this assessment with most entities providing a measure similar to FCF. However, some investors said that the calculation of FCF is usually included outside the financial statements and its calculation or changes to that calculation are not always transparent.

48. Many stakeholders of all types said having disclosure requirements for common cash flow measures similar to the requirements for MPMs in IFRS 18 would improve transparency of these measures. Some of these stakeholders said in some cases it is unclear whether a specific measure is an MPM applying IFRS 18 or a cash flow

measure outside the scope of these requirements. These stakeholders said having disclosure requirements for both MPMs and cash flow measures would provide transparency for both types of measures, reducing the importance of the distinction between the two.

Possible additional subtotals in the statement of cash flows

49. Many investors and preparers said having a defined subtotal that could act as a starting point to reconcile FCF would help provide more transparent information about FCF and allow investors to make their own calculations.

50. Some other stakeholders said it would be useful if the IASB developed a definition of FCF.

51. We think the IASB should explore the feasibility and possible benefits of developing additional subtotals in the statement of cash flows. Such requirements might improve the transparency of common cash flow measures, such as FCF.

Statement of cash flows for financial institutions

52. Feedback in the initial research regarding the statement of cash flows for financial institutions was consistent with the preliminary messages from the Third Agenda Consultation. Most stakeholders said the statement of cash flows was of limited use for these entities. Most investors said that the statement of cash flows is not the key source of information for their analysis on financial institutions, and a few said they did not use the statement at all. Some stakeholders suggested exempting financial institutions from preparing a statement of cash flows and some suggested replacing the statement with more industry-specific information (such as replicating regulatory disclosures regarding capital requirements).

53. Some investors specialising in financial institutions had specific suggestions for additional disclosures which could improve the usefulness of the statement of cash

flows and related information. These suggestions differed depending on whether they were specific to either banks or insurers.

54. We think the IASB should explore the feasibility and benefits of resolving perceived deficiencies with the statement of cash flows for financial institutions including considering a scope exemption for some entities because of the extent of feedback that it provides only limited useful information.

Other comments

55. Research and feedback from NSS identified two broad topics that relate to the project as a whole rather than the individual research topics included in the initial research:

(a) the objective of the statement of cash flows; and

(b) the timing of the project.

The objective of the statement of cash flows

56. EFRAG's discussion paper on the statement of cash flows and related matters begins by assessing the uses of the statement of cash flows by various stakeholders and the implications of those uses for the objective of the statement of cash flows. The paper points out that the objective of the statement will affect the most appropriate requirements for its presentation and the related disclosure requirements.

57. Our initial assessment of the findings is that the fundamental requirements of IAS 7 provide stakeholders with useful information. However, that information could be improved by specific enhancements to those requirements. We think this indicates that there is no perceived deficiency with the overall objective of the statement of cash flows in IAS 7. Hence, we do not think the project should attempt to develop a new objective.

58. However, there are perceived deficiencies in some of the reporting requirements for the statement of cash flows and a few stakeholders have raised more fundamental

questions about its preparation. Resolving some of these perceived deficiencies might require considering approaches that do not align with the objective of the statement of cash flows in IAS 7. We think in these cases the IASB should consider the feasibility and benefits of revising the objective to the extent necessary to resolve a particular deficiency and not be constrained by this objective.

Timing of the project

59. NSS and a few other stakeholders have said they would prefer the project to resolve the perceived deficiencies in the reporting requirements as quickly as possible. Some have identified areas they believe could be resolved more quickly than others and suggested the project first address these matters before the IASB considers more significant changes.

60. We acknowledge the stakeholder demand for the project to proceed as quickly and efficiently as possible. In the next section we discuss next steps for the project including setting a project plan which considers the need to balance different stakeholder needs and the potential complexities of resolving some of the perceived deficiencies identified.

Question for the IASB
1. Does the IASB agree with the staff recommendation to explore the feasibility and potential benefits of resolving perceived deficiencies in the requirements of IAS 7 related to the topics included in the initial research (see paragraph 3)?

Next steps and initial analysis of findings

61. In the previous section we identified detailed matters within each of the initial research topics. We concluded that section recommending the IASB further consider the feasibility and benefits of resolving perceived deficiencies in the requirements of IAS 7 related to the topics in the initial research. Based on that recommendation, this

section outlines our next steps for developing a project plan and provides a preliminary analysis of our initial research findings to give the IASB a basis for providing initial input on our approach to developing the project plan.

Next steps

62. We will bring a future paper to the IASB recommending a project plan, based on what we learned from the initial feedback. In developing the project plan, we intend to consider whether we have sufficient information to eliminate or constrain any detailed matters to be assessed for feasible solutions and the most efficient timing for assessing the remaining topics. We think the key factors to consider in this analysis are the potential complexity of resolving matters related to each topic and meeting user information needs, while balancing the needs of other stakeholders (including considering the potential costs to preparers).

63. We intend to use these factors as an overall guide to help the IASB decide on the project plan, rather than as a way of ranking individual topics. We think there are numerous different approaches the IASB could take to the project plan and considering these factors will help to decide on a single approach. The following is a preliminary analysis of the initial research findings and how it might inform the project plan.

Initial analysis of findings

64. The findings from the initial research suggest:

    (a) for some topics, the IASB might be able to sufficiently resolve stakeholders' perceived deficiencies with the reporting requirements with relatively straightforward changes.

    (b) for other topics, the IASB might need to consider more extensive or complex changes to resolve stakeholders' concerns.

65. Concluding on what is sufficient to resolve perceived reporting deficiencies for some topics might require balancing stakeholder needs as there are differing priorities for some topics. These differences in priority might contribute to the IASB needing to assess more extensive or complex changes.

66. The following analysis includes our preliminary assessment of the topics we think have higher and lower risks of complexity with explanations for these conclusions. Our intention with this analysis is to give the IASB an initial insight into how we intend to assess each of the topics, and later subtopics, to inform the development of the project plan. We recognise there are elements of each topic that might be complex depending on the approach the IASB decides to take in resolving a perceived deficiency. To give the IASB an early indication of different possible outcomes, we have provided examples of possible approaches that might result in more or less complexity for each topic.

Topics with a lower risk of complexity

67. Based on our initial analysis of the topics, identification of the interconnections with other topics, and suggestions made by stakeholders we think three topics are likely to have a lower risk of complexity to resolve:

(a) aggregation and disaggregation;

(b) common cash flow measures; and

(c) method of reporting operating cash flows.

68. Connections between these and other topics are less fundamental and for some of these topics there appears to be more consensus among stakeholders.

Aggregation and disaggregation

69. We think the topic of aggregation and disaggregation has a lower risk of complexity. While aggregation and disaggregation are connected to other topics because they result in the detailed line items that might be presented or disclosed that detail does

not affect the fundamental matters for other topics. For example, a particular cash flow's classification is not dependent on whether it is aggregated with other items.

70. The IASB discussed aggregation and disaggregation in financial statements in the development of IFRS 18 and the principles developed in that Standard could be built upon to improve disaggregation in the statement of cash flows. For example, IFRS 18 includes application guidance providing specific characteristics on which to base aggregation and disaggregation of assets, liabilities, income and expenses. One possible approach to resolving stakeholder concerns for this topic would be developing similar characteristics for cash flows in this project.

71. However, there are other possible approaches that might increase complexity. For example, developing guidance for specific disaggregation raised by stakeholders such as defining capital expenditures for growth and capital expenditures for maintenance and related disclosure requirements. Such an approach might be more complex because of the wide variety of factors that could be included in such definitions and might not be consistently applicable across industries.

Common cash flow measures

72. We think the topic of common cash flow measures has a lower risk of complexity and appears to have consensus from most stakeholders. Most stakeholders' concerns with common cash flow measures are regarding the transparency of those measures, particularly a measure of FCF. The IASB might be able to develop most of the requirements to improve transparency independently of any connections to other topics such as the structure of the statement of cash flows (consideration of the link between common measures and the structure of the statement of cash flows would form only one aspect of requirements to improve transparency).

73. Our initial assessment of the feedback is that stakeholders are also generally aligned in suggesting the IASB build on the principles developed in IFRS 18 for management-defined performance measures to resolve concerns over common cash flow measures.

74. However, a potential approach that might increase the complexity would be resolving stakeholder concerns by developing a definition of FCF, as suggested by some stakeholders. Getting stakeholder consensus on such a definition might be complex because of the variety of opinions stakeholders have on how to calculate the measure with some of those calculations including items such as capital expenditures for maintenance, which might interact with disaggregation requirements.

Method of reporting operating cash flows

75. We think the method of reporting cash flows from operating activities has a lower risk of complexity because it is relatively independent of the other topics and there might be possibilities to improve disclosure requirements for specific information. However, of the three topics with lower risk this topic has the clearest potential for complexity depending on approach. Because reporting practices are well established any approach that results in change will require consideration of cost implications and change management which might be challenging.

76. Reporting cash flows from operating activities is connected to some topics because some of the information provided by each of the direct and indirect presentation methods is similar to information that is sought in other areas. For example, disaggregated information about the changes in working capital would include elements of direct method operating cash flow information. However, the presentation method of operating cash flows itself does not interact with most other topics and could therefore be considered independently.

Topics with a higher risk of complexity

77. Based on our initial analysis of the topics, identification of the interconnections with other topics, and suggestions made by stakeholders we think three topics are likely to have a higher risk of complexity to resolve:

(a) effects of non-cash transactions;

(b) definitions of cash and cash equivalents; and

(c) requirements for classifying cash flows.

78. We think these are topics for which IASB might need to consider wider ranging or more complex changes to resolve stakeholders' perceived deficiencies with the related reporting requirements. These are topics that are highly interconnected, where there is less consensus on priorities, or for which stakeholders have raised more fundamental questions.

Effects of non-cash transactions

79. We think resolving the perceived reporting deficiencies regarding the effects of non-cash transactions has a higher risk of complexity because it is interconnected with other topics, might be technically challenging and has the potential for challenges in balancing cost concerns for preparers.

80. The effects of non-cash transactions are highly connected to the definitions of cash and cash equivalents because those definitions determine which transactions are cash and which are non-cash. Also, although there are requirements for some information about non-cash transactions, the statement of cash flows does not include non-cash transactions. This means providing more information about non-cash transactions touches on fundamental questions about the purpose of the statement of cash flows and what information it should require be presented or what information it should exclude.

81. During our outreach we also identified different types of non-cash transactions that investors seek information about. However, identifying the scope of non-cash transactions that might require presentation or disclosure to resolve user needs might be a technically complex area.

82. While we heard this was a high priority for investors, we also heard different investors seek different information for different purposes. Preparers also said there might be systems limitations to the information that might be available.

83. However, an approach to this topic that might be less complex could be to develop specific requirements to link or enhance existing disclosures, as suggested by some preparers. Such an approach might provide sufficient information for many stakeholders with less complexity and might be less costly for preparers.

Definitions of cash and cash equivalents

84. We think the topic of the definitions of cash and cash equivalents has a higher risk of complexity because of its interconnections with other topics and questions that stakeholders raised for this topic.

85. The definitions of cash and cash equivalents are interconnected with other topics because they determine the basis of the statement as a reconciliation of cash and cash equivalents. What is included in the definition determines what items it should include, or not include, and so it interacts with the effects of non-cash transactions in drawing the line between what is or is not cash.

86. Some stakeholders raised questions about the purpose of the statement of cash flows and whether a reconciliation of cash and cash equivalents is the best form of statement to meet that purpose. If the IASB decides to explore these questions in depth, it will require a wholistic review of the requirements in IAS 7. This would clearly involve a high level of complexity. However, such an approach might resolve stakeholder concerns relating to other topics at the same time.

87. An alternative approach that might be less complex might be to develop application guidance for the existing definitions of cash and cash equivalents, which might resolve many stakeholders' concerns about diversity in application of the definition, without fundamental change.

Requirements for classifying cash flows

88. We think the topic of requirements for classifying cash flows has a risk for complexity because of the potential for technical challenges in potential approaches and its interconnection to other topics.

89. One obvious approach to reducing diversity in classification and potentially aligning categories, either with practice or with IFRS 18, is to revise the definitions of operating, investing and financing activities. Developing new definitions for operating, investing and financing activities, or developing additional categories, might be technically complex. For example, the Exposure Draft to IFRS 18 proposed a new definition of financing activities, however due to the technical complexities of that definition the IASB instead developed a less complex approach to classifying income and expenses in the financing category of the statement of profit or loss.

90. The classification of cash flows into operating, investing and financing activities is connected to the definitions of cash and cash equivalents and the disaggregation of cash flow information because those topics determine the items to be classified in the statement of cash flows. Classification also determines the structure of the statement of cash flows which affects any subtotals that might be presented, creating a connection to common cash flow measures from the perspective of what might be included within the statement both as individual subtotals and as anchors for reconciling any related measures outside the statement.

91. An approach to this topic that might be less complex might be to develop application guidance for the existing categories of the statement of cash flows that resolve specific questions stakeholders raised in during our initial research phase.

Financial institutions

92. We think that the statement of cash flows for financial institutions needs to be considered separately from the other topics. We think a separate analysis for financial institutions is needed because the cost–benefit analysis for sufficiently resolving perceived deficiencies is different than for other types of entities. That does not necessarily mean developments in other topics will not apply, but the cost–benefit analysis will be different, and the timing of that analysis might vary (see paragraph 95).

Implications for timing

93. At a high-level we see two potential paths to approaching the project plan:

(a) first addressing those topics assessed to have a higher risk of complexity before resolving those that are less complex. This order would resolve significant uncertainties around possible approaches before progressing with those that are less complex. This might mean slower progress at the start of the project but will provide more time to test overall solutions, for example, with consultative groups and resolve interconnections at an earlier stage.

(b) first addressing those topics assessed to have a lower risk of complexity and that are less interconnected. This might allow the project to gain momentum early and set a basis for the project before turning to more challenging matters.

94. Our analysis of the risk of complexity of topics is preliminary. We will need to further consider the subtopics identified in the initial research and whether we have sufficient information to eliminate any of those topics at this stage. As we further consider possible approaches to these topics and the underlying perceived reporting deficiencies, we will be better placed to recommend a more detailed project plan.

95. We think that assessing the feasibility and benefits of resolving perceived deficiencies with the statement of cash flows for financial institutions should be completed after the other topics have been resolved. However, we would expect to consider the potential applicability of developments in the other topics to financial institutions as they are developed and refine those developments, applying a cost–benefit analysis specific to these entities later in the project.

96. Once any other possible improvements for other topics are known the IASB will have better information with which to evaluate whether other solutions for financial institutions suggested by stakeholders are feasible alternatives. For example, considering whether to exempt some entities from any specific requirements.

97. Assessing financial institutions after resolving the other topics would have the added advantage of benefiting from any progress made by the FASB in their project specific on the statement of cash flows for financial institutions. Furthermore, stakeholders will have more experience with the preparation and use of relatively new disclosure requirements introduced by IFRS 17 which might provide further insights into the sufficiency of cash flow specific information for insurers.

Question for the IASB
2. Does the IASB have any questions or comments on the next steps for the project plan and our initial analysis of the research findings?